

CITY OF SMITHFIELD
FINANCIAL STATEMENTS

June 30, 2005

CITY OF SMITHFIELD
TABLE OF CONTENTS

	<u>Page</u>
Financial Section	
Independent Auditors' Report	1
Management Discussion and Analysis	3
Basic Financial Statements	
Statement of Net Assets	15
Statement of Activities	16
Balance Sheet - Governmental Funds	17
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	18
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	20
Statement of Net Assets - Proprietary Funds	21
Statement of Revenues, Expenditures and Changes in Fund Net Assets - Proprietary Funds	22
Statement of Cash Flows - Proprietary Funds	23
Notes to Financial Statements	25
Required Supplementary Information	
Budgetary Comparison Schedule - General Fund	51
Budgetary Comparison Schedule - Redevelopment Agency	52
Notes to Required Supplementary Information - Budgetary Reporting	53

CITY OF SMITHFIELD
TABLE OF CONTENTS

	<u>Page</u>
Supplementary Information	
Governmental Funds:	
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	55
Combining Balance Sheet - Nonmajor Governmental Funds	59
Combining Statement of Revenues, Expenditures and Changes In Fund Balances - Nonmajor Governmental Funds	60
Schedule of Revenues and Expenditures - Budget and Actual - Recreation Center Fund	61
Schedule of Revenues and Expenditures - Budget and Actual - Debt Service Fund	62
Proprietary Funds:	
Statement of Revenues and Expenditures - Budget and Actual - Water Fund	63
Statement of Revenues and Expenditures – Budget and Actual - Sewer Fund	64
Statement of Revenues and Expenditures – Budget and Actual - Storm Sewer Fund	65
Statement of Revenues and Expenditures – Budget and Actual - Golf Fund	66
Governmental Audit Report:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	69
State Compliance Report:	
Report on Compliance with State Legal Compliance Requirements	73



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INDEPENDENT AUDITORS' REPORT

To the Mayor and City Council
City of Smithfield
Smithfield, UT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Smithfield, Utah (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

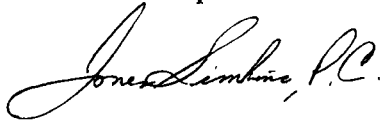
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2005 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 12 and 51 through 53, are not a required part of the basic financial statement but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining fund information and the additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund information and the additional information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



JONES SIMKINS, P.C.

October 13, 2005

CITY OF SMITHFIELD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

This document is a narrative overview and analysis of the financial activities of Smithfield City for the fiscal year ending June 30, 2005. Smithfield City's management encourages readers to consider the information presented here in conjunction with the financial statements which follow this section. To help the reader with navigation of this report, the city's activities are classified in the following manner: governmental activities which refers to general administration, public safety, streets and public improvements, parks, recreation and public property, library, etc., while business-type activities refers to operations of the water, sewer, and storm sewer utilities, and the city's golf course.

FINANCIAL HIGHLIGHTS

- The total net assets of Smithfield City increased by \$1,321,024 totaling \$20,972,711. The governmental net assets increased by \$788,168 and the business-type net assets increased by \$532,856. Of the four enterprise funds which comprise the business-type net assets only the Golf Fund showed a net asset loss. This loss which totaled \$94,460 was due primarily to depreciation.*
- The total net assets of government and business-type activities is \$20,972,711 and is made up of \$16,177,643 in capital assets, such as land, infrastructure, buildings, and equipment, and \$4,795,068 in other net assets. The \$4,795,068 in other net assets is comprised of \$503,743 restricted for capital projects and the remaining \$4,291,325 is unrestricted net assets.*
- Total long-term liabilities of the city decreased by \$382,037. The decrease in long-term liabilities was primarily the result of payments being made on bonds and leases. However, the city did add a capital lease for a gang mower to be used in the parks in the amount of \$51,717.*

REPORTING THE CITY AS A WHOLE

This discussion and analysis is intended to serve as an introduction to Smithfield City's basic financial statements. Smithfield City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

CITY OF SMITHFIELD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

The government-wide financial statements are designed to provide readers with a broad overview of Smithfield City's finances, in a manner similar to a private-sector business.

- The Statement of Net Assets presents information on all of Smithfield City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Smithfield City is improving or deteriorating. However, you will also need to consider other non-financial factors.*
- The Statement of Activities presents information showing how the city's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.*
- Both of the Statement of Net Assets and the Statement of Activities, which together comprise the government-wide financial statements, distinguish between activities that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government-wide financial statements can be found on pages 15 and 16 of this report.*

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Smithfield City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the city can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- Governmental funds - These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be*

CITY OF SMITHFIELD
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

readily converted to cash. The governmental fund statements provide a detailed short-term view of the city's general government operations and basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the city's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The major governmental funds (as determined by generally accepted accounting principles) are the General Fund, the Redevelopment Agency Special Fund, and the Capital Improvement Fund. The city currently has two other funds, the Recreation Fund and the Debt Service Fund, which are reported as nonmajor governmental funds.

Proprietary funds - Smithfield City maintains one type of proprietary fund, the enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Smithfield City uses an enterprise fund to account for its culinary water, sewer and storm sewer utilities, and golf course operations. As determined by generally accepted accounting principles, each of these enterprise funds meets the criteria for major fund classification.

Fiduciary funds - These funds are used to account for resources held for the benefit of parties outside the government. The city currently has no fiduciary funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Smithfield City, assets exceed liabilities by \$20,972,711.

By far the largest portion of Smithfield City's net assets (77%) reflects its investment in capital assets (e.g., land, buildings, infrastructure assets, machinery and equipment, net of depreciation). The city uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the city's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF SMITHFIELD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

STATEMENT OF NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current and other assets	\$ 3,570,701	3,857,039	2,412,866	2,261,845	5,983,567	6,118,884
Capital assets	<u>10,012,557</u>	<u>10,921,542</u>	<u>9,608,249</u>	<u>9,844,547</u>	<u>19,620,806</u>	<u>20,766,089</u>
Total assets	<u>13,583,258</u>	<u>14,778,581</u>	<u>12,021,115</u>	<u>12,106,392</u>	<u>25,604,373</u>	<u>26,884,973</u>
Current liabilities	1,223,032	1,167,650	684,479	535,411	1,907,511	1,703,061
Noncurrent liabilities	<u>2,539,381</u>	<u>2,380,386</u>	<u>2,127,326</u>	<u>1,828,815</u>	<u>4,666,707</u>	<u>4,209,201</u>
Total liabilities	<u>3,762,413</u>	<u>3,548,036</u>	<u>2,811,805</u>	<u>2,364,226</u>	<u>6,574,218</u>	<u>5,912,262</u>
Invested in capital assets, net of debt	7,468,977	8,458,824	7,186,189	7,718,819	14,655,166	16,177,643
Restricted	224,211	987,187	212,087	314,308	436,298	1,301,495
Unrestricted	<u>2,127,657</u>	<u>1,784,534</u>	<u>1,811,034</u>	<u>1,709,039</u>	<u>3,938,691</u>	<u>3,493,573</u>
Total net assets	\$ <u>10,442,377</u>	<u>11,230,545</u>	<u>9,209,310</u>	<u>9,742,166</u>	<u>19,651,687</u>	<u>20,972,711</u>

An additional part of net assets (6.2%) are assets that are subject to external restrictions on how they may be expended (debt reserve, capital projects, redevelopment or other purposes). The remaining 17% of net assets can be used to meet the city's ongoing obligations to its creditors and citizens.

Governmental Activities

Governmental activities net assets increased by \$788,168 for the current fiscal year. Key elements of this increase are as follows:

- The various classifications of property taxes the city collects increased by \$46,093 despite the fact there was a decrease in the property tax rate. This was due in part to the new growth that occurred in the city during FY 2005.*
- The sales tax revenue increased \$83,238 as the commercial area of the city expanded.*

CITY OF SMITHFIELD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

- *Due to the loss of a building at the city's cemetery, there was an insurance payment made by the city's insurance carrier to the city in the amount of \$36,917 as reimbursement for the loss.*
- *The city was awarded a number of grants to fund capital projects and purchase equipment including a \$64,000 award from the RAPZ Tax program and \$55,118 in fire and EMS grants.*
- *The city has long held to a policy of closely monitoring the expenditures of the various departments within the city. Each department strives to spend at a level that will result in a remaining balance of 5-10% below the authorized budget.*

Business-type activities

Business-type activities net assets increased by \$532,856. Key elements of this increase are as follows:

- *As subdivisions are developed in Smithfield, the developer is responsible to construct the various utilities that are necessary to service the future homes and businesses in the developments. The improvements are then dedicated to the city for future operation and maintenance. Included among these utilities are the water and sewer systems, and the storm sewer. The value of these improvements is then added to the city's assets.*
- *The overall charges for services attributed to the proprietary funds (water, sewer, storm sewer, and golf course) remain very consistent with slight increases in all funds except the water fund where a reduction was anticipated due to a water conservation effort as a result of a change in water usage patterns by the populace brought on by drought conditions during the previous six years. On the other hand, the golf course felt the effects of too much water in the form of rain which greatly curtailed the play on the golf course and expected revenues during the fall and spring months.*

CITY OF SMITHFIELD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

CHANGES IN NET ASSETS

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Revenues						
Program revenues						
Charges for services	\$1,217,292	1,422,666	2,330,982	2,298,855	3,548,274	3,721,521
Operating grants and contributions	437,890	380,937	-	-	437,890	380,937
Capital grants and contributions	-	427,634	507,398	349,042	507,398	776,676
General revenues						
Property taxes	677,873	723,966	-	-	677,873	723,966
Sales and use taxes	772,004	855,242	-	-	772,004	855,242
Other taxes	383,948	415,338	-	-	383,948	415,338
Interest	38,633	53,683	31,209	40,601	69,842	94,284
Gains (loss) sale of assets	-	27,361	(70,126)	-	(70,126)	27,361
Insurance recovery	-	36,917	-	-	-	36,917
Miscellaneous	<u>35,034</u>	<u>3,477</u>	<u>-</u>	<u>-</u>	<u>35,034</u>	<u>3,477</u>
Total revenues	<u>3,562,674</u>	<u>4,347,221</u>	<u>2,799,463</u>	<u>2,688,498</u>	<u>6,362,137</u>	<u>7,035,719</u>
Expenses						
General government	801,702	948,051	-	-	801,702	948,051
Public safety	691,768	792,990	-	-	691,768	792,990
Streets and public improvements	1,131,568	1,047,521	-	-	1,131,568	1,047,521
Parks and recreation	478,110	533,851	-	-	478,110	533,851
Library	121,496	122,291	-	-	121,496	122,291
Interest and fiscal charges	240,354	114,349	-	-	240,354	114,349
Water	-	-	453,575	466,314	453,575	466,314
Sewer	-	-	577,206	646,962	577,206	646,962
Storm sewer	-	-	34,124	70,659	34,124	70,659
Golf course	<u>-</u>	<u>-</u>	<u>975,186</u>	<u>971,707</u>	<u>975,186</u>	<u>971,707</u>
Total expenses	<u>3,464,998</u>	<u>3,559,053</u>	<u>2,040,091</u>	<u>2,155,642</u>	<u>5,505,089</u>	<u>5,714,695</u>
Change in net assets	<u>97,676</u>	<u>788,168</u>	<u>759,372</u>	<u>532,856</u>	<u>857,048</u>	<u>1,321,024</u>
Net assets - beginning	<u>9,723,169</u>	<u>*10,442,377</u>	<u>8,449,938</u>	<u>9,209,310</u>	<u>18,173,107</u>	<u>19,651,687</u>
Net assets - ending	<u>\$ 9,820,845</u>	<u>11,230,545</u>	<u>9,209,310</u>	<u>9,742,166</u>	<u>19,030,155</u>	<u>20,972,711</u>

* There was a prior year period adjustment of \$621,532 made to net assets due to a formula error in the spreadsheet used to determine asset attributed to curb and gutter.

CITY OF SMITHFIELD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The focus of the city's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the city's financing requirements. As of June 30, 2005, the City's governmental funds (General, Special Revenue, Capital Improvement, Debt Service and the Recreation Fund) reported combined fund equity of \$2,900,860. The General Fund is the chief operating fund of the city. All activities which are not required to be accounted for in separate funds either by state or local ordinance or by a desire to maintain a matching of revenues and expenses are accounted for in this fund.

Taxes continue to be the largest source of revenue in the General Fund and represented 52.4% of the total general fund revenues. This compares with 53.1% for 2004. The two largest elements of taxes are sales and use taxes and property taxes, as it has been for the last several years. Sales and use tax represents 47.4% of total tax revenues and 24.8% of total general fund revenues. These compare with 46.5% and 24.7% respectively in 2004. Property tax including fees-in-lieu represents 29.6% of total tax revenues and 15.5% of the total general fund revenues. These compare with 30.4% and 16.2% in 2004.

The city maintains enterprise funds to account for the business-type activities of the city. The separate fund statements included in this report provide the same information for business-type activities as is provided in the government-wide financial statements. However, the difference is that the fund statements provide much more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year it's not uncommon to make adjustments to the original budget. There are often matters that are unknown during the initial budget approval process which occur during the course of the year which require action on the part of the city. These unknowns may be factors outside the control of the city administration such as significant increases in the cost of fuel or particularly harsh winters or hot summers which can drive up the cost of energy. There are also purchasing and construction opportunities which come during the year that, if possible, the city tries to take advantage of.

The budget is constantly under review by the office staff, mayor, and city council. Typically, adjustments to the budget are considered mid way through the fiscal year and then again as the year comes to a close. Many adjustments are minor while some are of greater significance. During fiscal year 2005 the city took advantage of an opportunity to purchase new playground equipment for the city's parks at nearly a 50% discounted rate. After doing a thorough review of the offer and concluding the savings were legitimate and not a case of

CITY OF SMITHFIELD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

overinflating the cost only to give a discount, the city decided to purchase new equipment for each of the established playground areas. The city had known for some time that the existing equipment failed to meet the minimum safety standards so the opportunity was very timely. An adjustment was made to the budget to cover the \$68,579 expenditure.

The city was faced with significantly higher fuel prices that affected virtually every aspect of city government. Coupled with a very snowy winter requiring an above average snow removal effort and the various construction projects the public works department was involved with, the city's fuel budget was rapidly being consumed. In order to continue providing basic services and meet the fuel needs of the public works department, adjustments were made to the fuel portion of several budgets.

Working with RAPZ tax grant money awarded to the city by Cache County, the city embarked on an aggressive expansion of Forrester Acres. During the 2005 fiscal year the city completed a football/soccer field, parking lot, and several hundred feet of walking trail in the park. The city also continued to develop Heritage Park although the effort was slowed because of the dedication to Forrester Acres. Nevertheless, curb and gutter was constructed along the park's frontage with Center Street and rough grading of the north end of the park was completed.

The city completed a six month effort to update the city's general plan. Employing the services of JUB Engineers of Logan, Utah the public and city officials spent many hours planning the future direction of the city. The overall cost of the study was \$34,280 which resulted in a planning document which will guide the administration, city staff, and residents as the community grows in the coming years.

The first of a multi phase sidewalk replacement program began in the fall of 2004. The initial thrust of the project centered in the southwest quarter of the city which was bounded by Main Street on the east and Center Street on the north. The city budgeted \$50,000 for the initial phase, but due to the extent of the project only about 85% of the sidewalk that was in disrepair was replaced. This project will be an on-going effort.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets - Smithfield City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounts to \$20,766,089 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, infrastructure (streets, sidewalks, curb and gutter, bridges, etc.), and machinery and equipment. The increase in the city's governmental fixed assets for the current year was \$654,612 and depreciation expense was \$449,932.

CITY OF SMITHFIELD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Most of the increase in governmental fixed assets was attributed to streets that were constructed by outside parties as a result of subdivision development. These new roadways which were dedicated to the city included curb and gutter, sidewalk, and the right of way property. These new streets accounted for \$364,900 of the total. Other significant contributors were the result of new playground equipment for the city park along with improvements at Forrester Acres which combined for an increase of \$198,072

The increase in proprietary fixed assets included \$335,446 in new waterlines, \$187,664 in new sewer lines, and \$110,089 in new storm sewer infrastructure. These fixed asset increases were the result of both new construction by the city and contributions by subdivision developers.

Additional information on the city's capital assets can be found in the footnotes to these financial statements.

Long-term debt - As of June 30, 2005, the city had total debt outstanding of \$4,720,750 compared with 5,102,787 as of June 30, 2004. A portion of Smithfield City's long term debt, \$1,975,000 is general obligation debt which was used to build the recreation center in cooperation with the Cache County School District. The only other general obligation debt remains with the sewer bond in the amount of \$1,333,000 which was issued in 1988 to pay for the construction of a citywide sewer system. The city also has two lease-purchase agreements with Zions First National Bank which were established to build the new fire station and golf course clubhouse. These two agreements have resulting debt of \$441,768 and \$792,728 for the fire station and clubhouse respectively. In fiscal year 2005 the city entered into a third lease-purchase agreement, this time with Toro financing for a grounds mower to be used in the parks. The resulting debt remaining on this piece of equipment is \$45,950.

OUTSTANDING DEBT

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
General obligation bonds	\$ 2,075,000	1,975,000	1,599,000	1,333,000	3,674,000	3,308,000
Contract payable	83,422	67,794	-	-	83,422	67,794
Compensated absences	53,725	64,510	-	-	53,725	64,510
Capital leases payable	<u>468,580</u>	<u>487,718</u>	<u>823,060</u>	<u>792,728</u>	<u>1,291,640</u>	<u>1,280,446</u>
Totals	\$ <u>2,680,727</u>	<u>2,595,022</u>	<u>2,422,060</u>	<u>2,125,728</u>	<u>5,102,787</u>	<u>4,720,750</u>

CITY OF SMITHFIELD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Additional information on the outstanding debt obligations of the city can be found in the footnotes of these financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- *The major projects budgeted for next year include: the continuation of the sidewalk replacement program which will include the completion of the southwest quarter of city and beginning the effort in the northwest quarter; participation in the 1200 East task force which is expected to result in the construction of 1000 East from 300 South southward through Hyde Park; construction of a bridge over the Logan, Hyde Park and Smithfield Canal at 600 South and 980 East; completion of 600 South Street from 800 East to 1000 East; waterline improvements on Main Street in advance of a total reconstruction of the highway; additional progress on the expansion of Forrester Acres to include the completion of two additional soccer fields, an additional parking lot, and expansion of the walking trail; development of Heritage Park to include the construction of a gazebo, sprinkling system and landscaping; landscaping of the Hunter Meadows detention pond/park; waterline replacement on 300 North from Main Street to 200 West; and progress toward construction of a 1.5 million gallon water storage reservoir near the mouth of Dry Canyon.*
- *The property tax rates for the city's fiscal year 2005-06 will decrease as they have traditionally each year. Based on the adopted budget, the rate for general purposes will be reduced from 0.000932 to 0.000860. The rate for the general obligation bond on the city's recreation center will also be reduced going from 0.001011 to 0.000841. Based on the fee schedule adopted for fiscal year 2005-2006, the monthly charge for the storm water utility will increase from \$2.50 to \$3.50 for residences. For commercial property, the rate will be dependant on the amount of impervious surface. All other utility rates were unchanged.*

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Smithfield City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Smithfield City Manager, P. O. Box 96, Smithfield Utah, 84335.

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Basic Financial Statements

CITY OF SMITHFIELD
STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Pooled cash and cash equivalents	\$ 110,538	139,210	249,748
Cash and cash equivalents	2,663,942	1,892,816	4,556,758
Due from other governments	889,896	-	889,896
Accounts receivable	70,594	126,238	196,832
Inventory	-	103,581	103,581
Restricted assets:			
Cash and cash equivalents	118,904	-	118,904
Notes receivable	3,165	-	3,165
Land	3,259,361	371,152	3,630,513
Buildings and improvements	4,181,990	14,514,254	18,696,244
Infrastructure	6,737,859	-	6,737,859
Furniture and equipment	1,400,190	1,242,603	2,642,793
Accumulated depreciation	(4,657,858)	(6,283,462)	(10,941,320)
Total assets	\$ 14,778,581	12,106,392	26,884,973
<u>Liabilities</u>			
Accounts payable and accrued expenses	\$ 150,103	189,804	339,907
Deposits	240,404	45,846	286,250
Deferred revenue	562,507	2,848	565,355
Noncurrent liabilities:			
Due in one year	214,636	296,913	511,549
Due in more than one year	2,380,386	1,828,815	4,209,201
Total liabilities	3,548,036	2,364,226	5,912,262
<u>Net Assets</u>			
Investments in capital assets, net of related debt	8,458,824	7,718,819	16,177,643
Restricted	987,187	314,308	1,301,495
Unrestricted	1,784,534	1,709,039	3,493,573
Total net assets	\$ 11,230,545	9,742,166	20,972,711

The accompanying notes are an integral
part of these financial statements

CITY OF SMITHFIELD
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Activities	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental:							
General government	\$ 948,051	194,807	-	-	(753,244)	-	(753,244)
Public safety	792,990	333,222	120,530	-	(339,238)	-	(339,238)
Streets and public improvements	1,047,571	468,628	251,492	331,877	4,476	-	4,476
Parks, recreation and public property	533,851	424,094	-	95,757	(14,000)	-	(14,000)
Library	122,291	1,915	8,915	-	(111,461)	-	(111,461)
Interest and fiscal charges	114,349	-	-	-	(114,349)	-	(114,349)
Total governmental activities	3,559,053	1,422,666	380,937	427,634	(1,327,816)	-	(1,327,816)
Business-type activities:							
Water	466,314	603,426	-	92,566	-	229,678	229,678
Sewer	646,962	747,165	-	146,387	-	246,590	246,590
Storm sewer	70,659	72,855	-	110,089	-	112,285	112,285
Golf course	971,707	875,409	-	-	-	(96,298)	(96,298)
Total business-type activities	2,155,642	2,298,855	-	349,042	-	492,255	492,255
Total primary government	\$ 5,714,695	3,721,521	380,937	776,676	(1,327,816)	492,255	(835,561)
General revenues:							
Taxes:							
Sales and use tax					855,242	-	855,242
Property tax					723,966	-	723,966
Other taxes					415,338	-	415,338
Total taxes					1,994,546	-	1,994,546
Interest					53,683	40,601	94,284
Gain on sale of assets					27,361	-	27,361
Insurance recovery					36,917	-	36,917
Miscellaneous					3,477	-	3,477
Total general revenues and transfers					2,115,984	40,601	2,156,585
Change in net assets					788,168	532,856	1,321,024
Net assets—beginning (as restated)					10,442,377	9,209,310	19,651,687
Net assets—ending					\$ 11,230,545	9,742,166	20,972,711

The accompanying notes are an integral part
of these financial statements.

CITY OF SMITHFIELD
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	<u>General</u>	<u>Special Revenue Redevelopment Agency</u>	<u>Capital Improvements</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Pooled cash and cash equivalents	\$ -	-	26,479	84,059	110,538
Cash and cash equivalents	1,114,333	813,839	735,770	-	2,663,942
Due from pooled cash	-	-	497,705	-	497,705
Due from other governments	724,896	165,000	-	-	889,896
Accounts receivable	70,594	-	-	-	70,594
Restricted assets:					
Cash and cash equivalents	118,904	-	-	-	118,904
Notes receivable	-	3,165	-	-	3,165
					-
Total assets	\$ <u>2,028,727</u>	<u>982,004</u>	<u>1,259,954</u>	<u>84,059</u>	<u>4,354,744</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Due to pooled cash	\$ 481,618	16,087	-	-	497,705
Accounts payable and accrued expenses	135,484	-	900	13,719	150,103
Deposits	240,404	-	-	-	240,404
Deferred revenue	397,507	168,165	-	-	565,672
Total liabilities	<u>1,255,013</u>	<u>184,252</u>	<u>900</u>	<u>13,719</u>	<u>1,453,884</u>
<u>Fund Balances</u>					
Fund balances:					
Reserved	189,435	-	-	-	189,435
Unreserved:					
Undesignated	<u>584,279</u>	<u>797,752</u>	<u>1,259,054</u>	<u>70,340</u>	<u>2,711,425</u>
Total fund balances	<u>773,714</u>	<u>797,752</u>	<u>1,259,054</u>	<u>70,340</u>	<u>2,900,860</u>
Total liabilities and fund balances	\$ <u>2,028,727</u>	<u>982,004</u>	<u>1,259,954</u>	<u>84,059</u>	<u>4,354,744</u>

The accompanying notes are an integral part
of these financial statements.

CITY OF SMITHFIELD
RECONCILIATION OF THE BALANCE SHEET
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2005

Total fund balances for governmental funds	\$	2,900,860
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Land	\$	3,259,361	
Infrastructure subject to depreciation		6,737,859	
Buildings, equipment and other depreciable assets		5,582,180	
Accumulated depreciation		<u>(4,657,858)</u>	10,921,542

Certain revenues earned by the City will be collected after year end, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.

3,165

Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds.

Bonds payable	(1,975,000)		
Notes payable	(67,794)		
Compensated absences	(64,510)		
Capital leases	<u>(487,718)</u>	<u>(2,595,022)</u>	

Net assets of governmental activities	\$	<u><u>11,230,545</u></u>
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The accompanying notes are an integral part
of these financial statements.

CITY OF SMITHFIELD
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-
GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	General	Special Revenue Redevelopment Agency	Capital Improvements	Nonmajor Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 1,804,546	190,000	-	-	1,994,546
Licenses and permits	192,334	-	-	-	192,334
Intergovernmental	521,091	-	-	-	521,091
Charges for services	661,431	-	-	293,232	954,663
Fine and forfeitures	202,962	-	-	-	202,962
Library	10,830	-	-	-	10,830
Miscellaneous revenues	50,612	27,640	13,227	-	91,479
Total revenues	3,443,806	217,640	13,227	293,232	3,967,905
Expenditures:					
General government	924,370	-	8,266	-	932,636
Public safety	733,908	-	59,841	-	793,749
Streets and public improvements	851,793	25,260	-	-	877,053
Parks, recreation and public property	345,528	-	11,115	355,799	712,442
Library	110,222	-	8,000	-	118,222
Debt service:					
Principal	-	15,628	-	126,812	142,440
Interest	-	-	-	114,349	114,349
Total expenditures	2,965,821	40,888	87,222	596,960	3,690,891
Excess (deficiency) of revenues over expenditures	477,985	176,752	(73,995)	(303,728)	277,014
Other financing sources (uses):					
Proceeds from sale of assets	66,204	-	-	-	66,204
Insurance recovery	36,917	-	-	-	36,917
Proceeds from capital leases	51,717	-	-	-	51,717
Transfers in (out)	(580,300)	-	276,096	304,204	-
Total other financing sources (uses)	(425,462)	-	276,096	304,204	154,838
Net change in fund balance	52,523	176,752	202,101	476	431,852
Fund balance - beginning	721,191	621,000	1,056,953	69,864	2,469,008
Fund balance - ending	\$ 773,714	797,752	1,259,054	70,340	2,900,860

The accompanying notes are an integral
part of these financial statements

CITY OF SMITHFIELD
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Net change in fund balance - Total governmental funds		\$ 431,852	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of these assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation (\$449,932) exceeded capital outlays (\$444,351).			(5,581)
Governmental funds do not report the contribution of capital assets from third parties. However, the Statement of Activities reports these third party contributions as capital grants and contributions.			331,877
Governmental funds report proceeds from the sale of assets as an other financing source. However, the Statement of Activities reports the proceeds from the sale of assets less the net book value of the related capital assets as gain on sale of asset. This is the difference between the proceeds from sale (\$66,204) and the gain on sale of asset (\$27,361).			(38,843)
Net effect of revenues reported on the accrual basis in the Statement of Activities that do not provide current financial resources and thus are not reported as revenues in the governmental funds until available.			(16,842)
Bond proceeds and capital leases provide current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayment of bond and capital lease principal are expenditures in the governmental funds. Accrued vacation payable is recorded as expense when used in the governmental funds, but recorded as expense when earned in the Statement of Activities.			
Payment of bond principal	\$ 100,000		
Payment of notes payable principal	15,628		
Payments on capital leases	32,579		
Proceeds from capital leases	(51,717)		
Change in accrued vacation payable	(10,785)	85,705	
Change in net assets of governmental activities		\$ 788,168	

The accompanying notes are an integral part
of these financial statements.

CITY OF SMITHFIELD
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Storm Sewer Fund</u>	<u>Golf Fund</u>	<u>Total Business Type Activities</u>
<u>Assets</u>					
Pooled cash and cash equivalents	\$ 87,283	51,927	-	-	139,210
Cash and cash equivalents	752,821	1,046,492	30,614	62,889	1,892,816
Due from pooled cash	-	71,941	-	-	71,941
Accounts receivable	52,126	67,240	6,872	-	126,238
Inventory	-	-	-	103,581	103,581
Capital assets, net	<u>1,952,927</u>	<u>5,446,619</u>	<u>632,186</u>	<u>1,812,815</u>	<u>9,844,547</u>
Total assets	<u>\$ 2,845,157</u>	<u>6,684,219</u>	<u>669,672</u>	<u>1,979,285</u>	<u>12,178,333</u>
<u>Liabilities</u>					
Due to pooled cash	\$ -	-	11,640	60,301	71,941
Accounts payable	54,892	558	1,590	20,377	77,417
Accrued expenses	16,878	12,085	3,965	79,459	112,387
Deposits	45,846	-	-	-	45,846
Deferred revenue	-	-	-	2,848	2,848
Long-term liabilities					
Due in one year	-	267,000	-	29,913	296,913
Due in more than one year	<u>-</u>	<u>1,066,000</u>	<u>-</u>	<u>762,815</u>	<u>1,828,815</u>
Total liabilities	<u>117,616</u>	<u>1,345,643</u>	<u>17,195</u>	<u>955,713</u>	<u>2,436,167</u>
<u>Net Assets</u>					
Invested in fixed assets, net of related debt	1,952,927	4,113,619	632,186	1,020,087	7,718,819
Restricted	314,308	-	-	-	314,308
Unrestricted	<u>460,306</u>	<u>1,224,957</u>	<u>20,291</u>	<u>3,485</u>	<u>1,709,039</u>
Total net assets	<u>\$ 2,727,541</u>	<u>5,338,576</u>	<u>652,477</u>	<u>1,023,572</u>	<u>9,742,166</u>

The accompanying notes are an integral
part of these financial statements

CITY OF SMITHFIELD
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For The Year Ended June 30, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Storm Sewer Fund</u>	<u>Golf Fund</u>	<u>Total Enterprise Funds</u>
Operating revenues:					
Charges for services	\$ 485,963	697,305	72,855	873,377	2,129,500
Connection fees	14,790	1,800	-	-	16,590
Miscellaneous	<u>6,293</u>	<u>-</u>	<u>-</u>	<u>2,032</u>	<u>8,325</u>
Total operating revenues	<u>507,046</u>	<u>699,105</u>	<u>72,855</u>	<u>875,409</u>	<u>2,154,415</u>
Operating expenses:					
Salaries and benefits	186,621	159,114	45,026	440,890	831,651
Current expenses	166,232	262,038	7,261	393,714	829,245
Depreciation	<u>113,461</u>	<u>225,810</u>	<u>18,372</u>	<u>106,011</u>	<u>463,654</u>
Total operating expenses	<u>466,314</u>	<u>646,962</u>	<u>70,659</u>	<u>940,615</u>	<u>2,124,550</u>
Operating income (loss)	<u>40,732</u>	<u>52,143</u>	<u>2,196</u>	<u>(65,206)</u>	<u>29,865</u>
Non-operating income (expense):					
Interest expense	-	-	-	(31,092)	(31,092)
Impact fees	96,380	48,060	-	-	144,440
Interest income	<u>17,341</u>	<u>20,808</u>	<u>614</u>	<u>1,838</u>	<u>40,601</u>
Total non-operating income (expense)	<u>113,721</u>	<u>68,868</u>	<u>614</u>	<u>(29,254)</u>	<u>153,949</u>
Income (loss) before capital contribution	154,453	121,011	2,810	(94,460)	183,814
Capital contributions	<u>92,566</u>	<u>146,387</u>	<u>110,089</u>	<u>-</u>	<u>349,042</u>
Change in net assets	247,019	267,398	112,899	(94,460)	532,856
Net assets - beginning	<u>2,480,522</u>	<u>5,071,178</u>	<u>539,578</u>	<u>1,118,032</u>	<u>9,209,310</u>
Net assets - ending	<u>\$ 2,727,541</u>	<u>5,338,576</u>	<u>652,477</u>	<u>1,023,572</u>	<u>9,742,166</u>

The accompanying notes are an integral
part of these financial statements

CITY OF SMITHFIELD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended June 30, 2005

	Water Fund	Sewer Fund	Storm Sewer Fund	Golf Fund	Total
Cash flows from operating activities:					
Receipts from customers and users	\$ 528,491	697,326	72,936	858,293	2,157,046
Payments to suppliers	(236,324)	(281,546)	(6,686)	(420,159)	(944,715)
Payments to employees	(184,812)	(158,863)	(44,166)	(448,151)	(835,992)
Net cash provided by (used in) operating activities	107,355	256,917	22,084	(10,017)	376,339
Cash flows from non-capital financing activities:					
Change in pooled cash	123,338	11,249	(22,084)	119,540	232,043
Impact fees	96,380	48,060	-	-	144,440
Net cash provided by (used in) non-capital financing activities	219,718	59,309	(22,084)	119,540	376,483
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(261,975)	(48,940)	-	(39,994)	(350,909)
Principal payments on long-term debt	-	(266,000)	-	(30,332)	(296,332)
Interest and fees paid on long-term debt	-	-	-	(31,092)	(31,092)
Net cash used in capital and related financing activities	(261,975)	(314,940)	-	(101,418)	(678,333)
Cash flows from investing activities:					
Interest received	17,341	20,808	614	1,838	40,601
Net cash provided by investing activities	17,341	20,808	614	1,838	40,601
Net increase in cash and cash equivalents	82,439	22,094	614	9,943	115,090
Cash and cash equivalents - beginning	757,665	1,076,325	30,000	52,946	1,916,936
Cash and cash equivalents - ending	\$ 840,104	1,098,419	30,614	62,889	2,032,026
Contained in the following accounts:					
Pooled cash and cash equivalents	87,283	51,927	-	-	139,210
Cash and cash equivalents	752,821	1,046,492	30,614	62,889	1,892,816
	840,104	1,098,419	30,614	62,889	2,032,026

(continued)

The accompanying notes are an integral
part of these financial statements

(continued)

CITY OF SMITHFIELD
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2005

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Storm Sewer Fund</u>	<u>Golf Fund</u>	<u>Total</u>
Supplemental disclosures:					
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 40,732	52,143	2,196	(65,206)	29,865
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	113,461	225,810	18,372	106,011	463,654
Net change in assets and liabilities:					
Accounts receivable	17,330	(1,779)	81	-	15,632
Inventory	-	-	-	18,436	18,436
Accounts payable	(70,092)	(19,508)	575	(76,884)	(165,909)
Accrued expenses	1,809	251	860	24,742	27,662
Deposits	4,115	-	-	-	4,115
Deferred revenue	-	-	-	(17,116)	(17,116)
Total adjustments	66,623	204,774	19,888	55,189	346,474
Net cash provided by (used in) operating activities	\$ 107,355	256,917	22,084	(10,017)	376,339
Schedule of noncash capital and related financing activities:					
Capital assets acquired	\$ (354,541)	(195,327)	(110,089)	(39,994)	(699,951)
Acquired by capital contribution	92,566	146,387	110,089	-	349,042
Net cash paid for assets acquired	\$ (261,975)	(48,940)	-	(39,994)	(350,909)

The accompanying notes are an integral
part of these financial statements

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The City of Smithfield, Utah (the City), operates as an incorporated governmental entity within the State of Utah. The City operates under the Council-Mayor form of government and provides the following services: public safety (police and fire), streets and public improvements, parks and recreation, library and general administrative services. In addition, the City owns and operates a water system, and a sewer system, a storm water system and a golf course.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The accounting policies of the City conform to generally accepted accounting principles.

The City has created the Smithfield Redevelopment Agency (RDA) and this entity has been determined to be a blended component unit of the City. The accounts of this entity have been appropriately blended into the City's financial statements in accordance with GAAP.

The City has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective government board. The City participates in the Cache Valley Transit District (CVTD) and the Cache Metropolitan Planning Organization (CMPO), which are separate legal entities which are not controlled or dependent upon the City. However, the City has imposed a ¼ of 1% sales tax to fund the CVTD. The Utah State Auditor's Office has determined that the sales tax is in effect collected by the CVTD and that the related revenue and expenditures should be excluded from these financial statements.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Basic Financial Statements - Government-Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's public safety, streets and public improvements, parks and recreation, library and general administrative services are classified as governmental activities. The City's water, sewer and storm sewer water and golf services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are (a) presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

Governmental activities are usually financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (general, public safety, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants.

Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property or sales taxes, intergovernmental revenues, interest income, etc.). The City does not allocate indirect costs.

These government-wide statements focus more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Basic Financial Statements – Fund Statements

The City's accounting system is organized on a fund basis. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the government establishes for accountability purposes in accordance with statutes, laws, regulations, restrictions, or specific purposes. Separate financial statements are provided for governmental funds and proprietary funds. The emphasis of fund financial statements is on major individual funds, as defined by GASB Statement No. 34, with each displayed as a separate column. All remaining governmental and proprietary funds are aggregated and reported as non-major funds in their respective fund financial statements.

The following fund types are used by the City:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City.

- The **General Fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- The **Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The City's major governmental funds consist of the following:

General Fund - see description above.

RDA - This fund accounts for the operations of this blended component unit. The RDA builds infrastructure within City limits, promotes economic development and is entitled to collect incremental property taxes on the property within the boundaries of the RDA.

The City's nonmajor governmental funds consist of a special revenue fund that collect fees for the operations of the recreation center and a debt service fund to accumulate resources for the debt service of the general obligation bonds.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings, are reported as non-operating.

- **Enterprise funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

The City's major enterprise funds consist of the following:

Water Fund - This fund accounts for the water services provided to City residents.

Sewer Fund - This fund accounts for the sewer services provided to City residents.

Storm Sewer Fund - The fund accounts for the operations of the City's storm water drainage systems.

Golf Fund - The fund accounts for the operations of the Birch Creek Golf Course.

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service and compensated absences expenditures are recorded only when payment is due.

Financial Statement Amounts

Cash and cash equivalents

For the purpose of the Statement of Net Assets, the term "cash and cash equivalents" includes all demand deposit accounts, savings accounts, or other short-term, highly liquid investments. For the purposes of the Statement of Cash Flows, the enterprise funds consider all highly liquid investments (including restricted assets) with original maturities of three months or less to be cash equivalents.

Interfund Receivables and Payables

During the course of operations, transactions sometimes occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Accounts Receivable and Due From Other Governments

Receivables consist of all revenues earned at year-end but received after year-end. Allowances for uncollectible accounts are based upon historical trends. Receivable balances for the governmental activities include sales taxes, franchise taxes, property taxes, garbage collection fees, and other fees. Business-type activities report receivables for utility service fees.

Notes Receivable

The City's notes receivable relate to loans made by the RDA for improvements within the RDA. In the fund financial statement, new loans are recorded as expenditures and notes receivable and deferred revenue are recorded on the Balance Sheet. Principal and interest payments on the notes receivable are recorded as revenue and the corresponding note receivable and deferred revenue are reduced. In the government-wide financial statements, new loans are recorded as notes receivable and principle payments are recorded as reductions to the notes receivable.

Inventory

Inventory in the golf fund is recorded at the lower of cost or market (first in, first out method).

Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical costs. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs for repairs and maintenance are expensed as incurred.

Depreciation on all depreciable assets has been provided over the estimated useful lives using the straight line method. The ranges of estimated useful lives are as follows:

Buildings and improvements	7 to 40 years
Infrastructure	25 years
Furniture and equipment	3 to 20 years

In the governmental fund financial statements, the acquisition or construction of capital assets is accounted for as capital outlay expenditures.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Capitalized Interest

The City capitalizes net interest costs as part of the cost of construction for proprietary capital projects when material.

Deferred Revenues

In the government-wide statements and the proprietary fund statements, deferred revenue is recognized when cash or other assets are received or recognized prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable.

Compensated Absences

The City's policies regarding vacation time permit employees to accumulate unused vacation leave. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds do not report a liability for compensated absences while proprietary funds report the liability as it is incurred. Compensated absences related to governmental activities are usually liquidated by the General Fund. In the government-wide financial statements, the liability for governmental activities compensated absences is included in long-term liabilities.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide financial statements. The long-term debt consists of bonds payable, capital leases payable, notes payable, and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund long-term debt is the same in the fund statements as it is in the government-wide statements.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Equity Classifications

Equity in the government-wide financial statements is classified as net assets and displayed in three components:

- Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction or improvement of these assets.
- Restricted net assets - Consists of net assets with constraints placed on their use whether by 1) external groups such as creditors, grantors or laws and regulations of other governments; or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Governmental fund equity is classified as fund balance in the fund financial statements. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide financial statements.

Revenues

Property taxes, franchise taxes, licenses, fees-in-lieu of taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Property taxes and fees-in-lieu of taxes associated with future periods are deferred. All other revenue items are considered to be measurable and available only when the City receives cash. Grants are usually reimbursable grants and are thus recognized as revenue at the time the expenditures are made.

Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB Statement No. 33. In addition, other revenues that do not result from providing services are reported as non-operating revenues.

Expenses/Expenditures

When an expense/expenditure is incurred for purposes for which both restricted and unrestricted resources are available, it is the City's general policy to use restricted resources first.

For proprietary fund financial statements, operating expenses are those that result from providing services to customers.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1 - Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual amounts could differ from these estimates.

Property Tax Calendar

Cache County assesses all taxable property other than centrally assessed property, which is assessed through the State, by May 22 of each year. The City must adopt a final tax rate prior to June 22, which is then submitted to the State for approval. Property taxes are due on November 30. Delinquent taxes are subject to a penalty of 2% or \$10.00, whichever is greater. After January 16 of the following year, delinquent taxes and penalties bear interest at 6% above the federal discount rate from January 1 until paid.

Note 2 – Accounting Restatement

The City discovered in the course of preparing fixed asset balances that the historical cost of certain infrastructure assets had been understated by \$621,532 as of June 30, 2004. An adjustment to the beginning net assets and fixed assets has been made to reflect this correction.

Note 3 – Deposits and Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the State, and review the rules adopted by the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City follows the requirements of the Utah Money Management Act (Utah Code, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3 – Deposits and Investments (continued)

At June 30, 2005, the City's deposits and investments consisted of the following:

<u>Financial Statement Description</u>	<u>Deposits</u>	<u>Investments</u>	<u>Cash</u>	<u>Total</u>
Pooled cash and cash equivalents:				
Cash-on-hand	\$ -	-	450	450
Demand deposits	<u>249,298</u>	<u>-</u>	<u>-</u>	<u>249,298</u>
Total pooled cash and cash equivalents	\$ <u>249,298</u>	<u>-</u>	<u>-</u>	<u>249,748</u>
Cash and cash equivalents:				
Cash-on-hand	\$ -	-	1,050	1,050
Demand deposits	595,673	-	-	595,673
Public Treasurer's Investment Pool	<u>-</u>	<u>3,960,035</u>	<u>-</u>	<u>3,960,035</u>
Total cash and cash equivalents	\$ <u>595,673</u>	<u>3,960,035</u>	<u>1,050</u>	<u>4,556,758</u>
Restricted cash and cash equivalents:				
Demand deposits	\$ 68,425	-	-	68,425
Public Treasurer's Investment Pool	<u>-</u>	<u>50,479</u>	<u>-</u>	<u>50,479</u>
Total restricted cash and cash equivalents	\$ <u>68,425</u>	<u>50,479</u>	<u>-</u>	<u>118,904</u>
Total all deposits and investments	\$ <u>913,396</u>	<u>4,010,514</u>	<u>1,500</u>	<u>4,925,410</u>

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2005, \$784,294 of the City's bank balances of \$952,719 was uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the City and the conditions for making investments transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with the issuers of investment securities.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3 – Deposits and Investments (continued)

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations, one of which must be Moody’s Investor Services or Standard & Poor’s; bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer’s Investment Fund.

The Utah State Treasurer’s Office operates the Public Treasurers’ Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionately in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of June 30, 2005, all investments held by the City are in the PTIF, which has a maturity of less than 1 year.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City’s policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State’s Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all City investments in commercial paper, bankers’ acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3 – Deposits and Investments (continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City's policy for reducing exposure to credit risk is to comply with the State's Money Management Act as previously discussed. At June 30, 2005, all investments held by the City are in the PTIF which is unrated.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's policy for reducing this risk is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's policy for custodial risk is to use the PTIF whenever possible. As of June 30, 2005, all of the City's investments were in the PTIF.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4 - Accounts Receivable and Due From Other Governments

The City's due from other governments and accounts receivable at June 30, 2005, consist of the following:

Due from other governments:

Governmental activities:

General fund:

Property taxes	\$ 413,227
Class "C" roads	53,036
Sales tax	159,922
RAPZ tax	72,847
Cache County EMS	<u>25,864</u>

Total general fund	<u>724,896</u>
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Redevelopment Agency fund:

Property taxes	<u>165,000</u>
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Total governmental activities	\$ <u>889,896</u>
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Accounts receivable:

Governmental activities:

General fund:

Communication Center (911 fees)	\$ 5,959
Garbage	44,792
Energy taxes	18,312
Other	<u>1,531</u>

Total governmental activities	\$ <u>70,594</u>
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Business-type activities:

Water services and fees	\$ 52,126
Sewer services and fees	67,240
Storm sewer services and fees	<u>6,872</u>

Total business-type activities	\$ <u>126,238</u>
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CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 5 – Capital Assets

Capital asset changes occurring for the year ended June 30, 2005, are as follows:

	Restated Balance July 1, <u>2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2005</u>
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 707,510	-	(5,000)	702,510
Infrastructure land	<u>2,328,133</u>	<u>228,718</u>	<u>-</u>	<u>2,556,851</u>
Total capital assets not being depreciated	<u>3,035,643</u>	<u>228,718</u>	<u>(5,000)</u>	<u>3,259,361</u>
Capital assets being depreciated:				
Buildings and improvements	4,078,025	164,685	(60,720)	4,181,990
Infrastructure	6,622,006	136,184	(20,331)	6,737,859
Furniture and equipment	<u>1,189,114</u>	<u>246,641</u>	<u>(35,565)</u>	<u>1,400,190</u>
Total capital assets being depreciated	<u>11,889,145</u>	<u>547,510</u>	<u>(116,616)</u>	<u>12,320,039</u>
Accumulated depreciation for:				
Buildings and improvements	(767,322)	(115,036)	45,275	(837,083)
Infrastructure	(2,672,529)	(220,058)	20,331	(2,872,256)
Furniture and equipment	<u>(850,848)</u>	<u>(114,838)</u>	<u>17,167</u>	<u>(948,519)</u>
Total accumulated depreciation	<u>(4,290,699)</u>	<u>(449,932)</u>	<u>82,773</u>	<u>(4,657,858)</u>
Total capital assets being depreciated, net	<u>7,598,446</u>	<u>97,578</u>	<u>(33,843)</u>	<u>7,662,181</u>
Total governmental activities capital assets, net	\$ <u>10,634,089</u>	<u>326,296</u>	<u>(38,843)</u>	<u>10,921,542</u>

The balances as of July 1, 2004 have been restated for curb and gutter infrastructure that the City understated by \$621,532 in the prior year (see Note 2).

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 5 – Capital Assets (continued)

Capital asset changes occurring for the year ended June 30, 2005, are as follows:

	Balance July 1, <u>2004</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2005</u>
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 318,551	52,601	-	371,152
Capital assets being depreciated:				
Buildings and improvements	13,948,030	591,040	(24,816)	14,514,254
Furniture and equipment	<u>1,252,875</u>	<u>56,311</u>	<u>(66,583)</u>	<u>1,242,603</u>
Total capital assets being depreciated	<u>15,200,905</u>	<u>647,351</u>	<u>(91,399)</u>	<u>15,756,857</u>
Accumulated depreciation for:				
Buildings and improvements	(5,007,628)	(382,666)	24,305	(5,365,989)
Furniture and equipment	<u>(903,579)</u>	<u>(80,988)</u>	<u>67,094</u>	<u>(917,473)</u>
Total accumulated depreciation	<u>(5,911,207)</u>	<u>(463,654)</u>	<u>91,399</u>	<u>(6,283,462)</u>
Total capital assets being depreciated, net	<u>9,289,698</u>	<u>183,697</u>	-	<u>9,473,395</u>
Total business-type activities capital assets, net	\$ <u>9,608,249</u>	<u>236,298</u>	<u>-</u>	<u>9,844,547</u>

Note 6 - Refundable Deposits

The City of Smithfield requires a security deposit for utility services. The deposit reported as a liability in the water fund covers garbage pickup, water charges, and sewer services. The City held security deposits in the water utility fund of \$45,846 at June 30, 2005.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 6 - Refundable Deposits (continued)

The City also requires that developers provide a guarantee deposit to insure that improvements are completed. The deposit is refunded after all improvements have been made. The City held contractor deposits in the General Fund of \$118,904 as of June 30, 2005. In addition, the City also held \$121,500 in other deposits.

Note 7 - Interfund Balances/Transfers

Interfund balances as of June 30, 2005 consisted of the following:

Due To/From Pooled Cash and Cash Equivalents:

<u>Payable Fund</u>	<u>Receivable Fund</u>		<u>Total</u>
	<u>Capital Projects</u>	<u>Sewer</u>	
General	\$ 481,618	-	481,618
Redevelopment Agency	16,087	-	16,087
Storm Sewer	-	11,640	11,640
Golf	-	60,301	60,301
Total	\$ <u>497,705</u>	<u>71,941</u>	<u>569,646</u>

During the year, the City made the following interfund transfers:

<u>Purpose</u>	<u>Amount</u>	<u>Transfer in</u>	<u>Transfer out</u>
Debt payments	\$ 43,904	Debt Service	Capital Projects
Operations	63,000	Recreation	General
Debt payments	197,300	Debt Service	General
Fund future projects	320,000	Capital Projects	General

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8 – Long-term Liabilities

Long-term liability activity for fiscal year ending June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One year
<u>Governmental activities</u>					
Bonds payable	\$ 2,075,000	-	(100,000)	1,975,000	105,000
Contract payable	83,422	-	(15,628)	67,794	14,000
Compensated absences	53,725	58,673	(47,888)	64,510	57,501
Capital leases payable	<u>468,580</u>	<u>51,717</u>	<u>(32,579)</u>	<u>487,718</u>	<u>38,135</u>
Total governmental long-term liabilities	\$ <u>2,680,727</u>	<u>110,390</u>	<u>(196,095)</u>	<u>2,595,022</u>	<u>214,636</u>
<u>Business-type activities</u>					
Bonds payable	\$ 1,599,000	-	(266,000)	1,333,000	267,000
Capital leases payable	<u>823,060</u>	<u>-</u>	<u>(30,332)</u>	<u>792,728</u>	<u>29,913</u>
Total business-type long-term liabilities	\$ <u>2,422,060</u>	<u>-</u>	<u>(296,332)</u>	<u>2,125,728</u>	<u>296,913</u>

Governmental Activities

The City has the following long-term debt obligations pertaining to governmental activities:

Bonds payable:

\$2,500,000 General Obligation Bonds, Series 1999.

Issued through Zions First National Bank for the construction of recreational facilities. Due in annual installments ranging from \$75,000 to \$130,000 through February, 2011, \$425,000 due February, 2014, and \$845,000 due February, 2019, including interest ranging from 4.2% to 5%.

\$ 1,975,000

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8 – Long-term Liabilities (continued)

Capital leases payable:

\$507,000 lease-purchase agreement, payable to Zions First National Bank for a fire station, payable in semi-annual installments including interest ranging from 3.45% to 3.70%, secured by the fire station. Matures November, 2017. \$ 441,768

\$51,717 lease-purchase agreement, payable to Toro Financing for grounds equipment, payable in annual installments, including interest at 4.7% secured by the grounds equipment. Matures August, 2009. 45,950

Total capital leases payable \$ 487,718

Contracts payable:

Commitment of RDA tax increment collections to Market Development, Inc. \$ 67,794

The annual requirements to amortize the bonds payable and contract payable of the governmental activities were as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 119,000	91,550	210,550
2007	124,000	86,300	210,300
2008	129,000	80,800	209,800
2009	134,000	75,223	209,223
2010	136,794	70,183	206,977
2011-2015	710,000	265,664	975,664
2016-2019	<u>690,000</u>	<u>84,720</u>	<u>774,720</u>
Totals	\$ <u>2,042,794</u>	<u>754,440</u>	<u>2,797,234</u>

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8 – Long-term Liabilities (continued)

The following is a schedule of the future minimum lease payments under the governmental activities capital leases and the present value of the net minimum lease payments at June 30, 2005:

Year Ending June 30	
2006	\$ 55,484
2007	55,484
2008	55,484
2009	55,484
2010	49,306
2011-2015	219,521
2016-2018	<u>111,059</u>
Net minimum lease payments	601,822
Less amount representing interest	<u>(114,104)</u>
Present value of net minimum lease payments	\$ <u>487,718</u>

At June 30, 2005, the cost of assets financed by capital leases recorded in governmental activities was \$656,152 and the accumulated depreciation was \$89,211.

During fiscal year 1999, the City issued \$2,500,000 of general obligation bonds for the purpose of constructing recreational facilities jointly with Cache County School District. Interest is due semi-annually on August 1. The bonds have a mandatory sinking requirement to accumulate adequate funds to make bond payments of \$425,000 in February, 2014 and \$845,000 in February, 2019. The mandatory sinking fund payments range from \$135,000 to \$185,000.

The City has entered into a capital lease agreement with Zion's Bank to provide financing for the construction of assets. The agreement requires that the City lease assets to Zions Bank for \$1 annually. Zions Bank subleases the assets to the City with an initial interest rate of 3.70% and interest adjustment dates in November 2007 and 2012, which are at an interest factor of 95% of the bank's index rate. The City borrowed the maximum amount allowed per the agreement of \$507,000, which will be repaid in equal installments over the maximum duration of the agreement. The agreement can be renewed annually but has a maximum duration of fifteen years.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8 – Long-term Liabilities (continued)

The Smithfield Redevelopment Agency (the RDA) has entered into a contractual agreement with Market Development, Inc. whereby the RDA will pay \$285,000 to the developer for improvements constructed on a site within the City's redevelopment area. The RDA is obligated to make annual payments equal to seventy percent (70%) of the tax increment money received by the RDA from the developer's building and improvements. The tax increment subsidy payments are secured solely by a pledge of the tax increment moneys anticipated from improvements constructed by the developer. The developer will have no other recourse to the RDA or the City for payment of the tax increment subsidy other than this pledge. Under the terms of the contract, payments will continue until the principal amount of \$285,000 is repaid or to the end of the fifteenth (15th) tax increment year (2011), whichever comes first. Payment is due to the developer within 30 days following receipt of these funds from the Cache County Treasurer. No interest will accrue or be paid to the developer.

The City typically transfers money from the General Fund to the Debt Service Fund to liquidate governmental activities long-term liabilities.

Business-type Activities

The City has the following long-term debt agreements pertaining to business-type activities:

Bonds payable:

\$1,700,000, General Obligation Sewer Bond, Series 1988A. Issued and held by the State of Utah for construction of the sewer system. Due in annual installments of \$85,000, matures August 15, 2009. Non-interest bearing.	\$ 425,000
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\$3,630,300, General Obligation Sewer Bond Series 1988B. Issued and held by the State of Utah for construction of the sewer system. Due in annual installments ranging from \$181,000 to \$182,000, matures August 15, 2009. Non-interest bearing.	<u>908,000</u>
--	----------------

Total bonds payable	\$ <u>1,333,000</u>
---------------------	---------------------

Capital leases payable:

\$837,000, lease-purchase agreement payable to Zions First National Bank, due in semi-annual installments of \$29,887, including interest ranging from 3.64% to 4.06%. Secured by a golf club house. Matures in November, 2023.	\$ <u>792,728</u>
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CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8 – Long-term Liabilities (continued)

The annual requirements to amortize all business-type activity bonds payable as of June 30, 2005 are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>
2006	\$ 267,000
2007	266,000
2008	267,000
2009	266,000
2010	<u>267,000</u>
Totals	\$ <u>1,333,000</u>

The following is a schedule of the future minimum lease payments under the business-type capital leases and the present value of the net minimum lease payments at June 30, 2005:

Year Ending <u>June 30</u>	
2006	\$ 59,773
2007	59,774
2008	59,774
2009	59,773
2010	59,773
2011-2015	298,866
2016-2020	298,866
2021-2024	<u>207,608</u>
Net minimum lease payments	1,104,207
Less amount representing interest	<u>(311,479)</u>
Present value of net minimum lease payments	\$ <u>792,728</u>

The City has entered into capital lease agreement with Zions Bank to provide financing for the construction a new golf club house. The agreement requires that the City lease assets to Zions Bank for \$1 annually. Zions Bank subleases the assets to the City with an initial interest rate of 4.06% and interest adjustment dates in November 2013 and 2018, which are at an interest factor of 95% of the bank's index rate. The City borrowed the maximum amount allowed per the agreement of \$837,000, which will be repaid in equal installments over the maximum duration of the agreement. The agreement can be renewed annually but has a maximum duration of twenty years.

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8 – Long-term Liabilities (continued)

At June, 30, 2005, the cost of the asset financed by this capital lease recorded in business-type activities was \$1,200,000 and the accumulated depreciation was \$52,500.

Note 9 - Reserved Fund Equity

Restricted net assets and reserved fund equity represent moneys required to be maintained to satisfy third party agreements or legal requirements. The following schedule details restricted net assets and reserved fund equity at June 30, 2005:

Governmental Activities

General Fund

Road maintenance and construction (Class "C")	\$ 79,609
Cemetery capital improvement	73,555
Parks	27,950
Library memorial	1,249
Law enforcement (State liquor law funding)	5,724
Firemen association	<u>1,348</u>
Total reserved fund balance	\$ <u>189,435</u>

Redevelopment Agency

Unreserved fund balance	\$ <u>797,752</u>
Total restricted net assets	\$ <u>987,187</u>

Business-type Activities

Water Fund:

Impact fees	\$ <u>314,308</u>
Total restricted net assets	\$ <u>314,308</u>

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 10 - Retirement Plans

Defined Benefit Plans

The City participates in the Utah Retirement Systems which sponsors multiple employer, cost sharing defined benefit pension plans. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Utah Retirement Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Utah Retirement Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of this report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

During 2005, 2004 and 2003, the City was required to contribute 11.09%, 9.62% and 8.69% respectively, of the plan members' annual covered salary in the Local Governmental Noncontributory Retirement System. During 2005, 2004 and 2003, the City was required to contribute 19.08%, 16.24% and 13.89%, respectively, of the plan members' annual covered salary in the Public Safety Noncontributory Retirement System. During 2005 and 2004, the City participated in the Firefighters Contributory Retirement System which required employees to contribute 8.61% and 8.21%, respectively, of their covered salary. The contribution requirements of the Systems are authorized by statute and specified by the Board.

Contributions to the retirement systems for the years ending June 30, 2005, 2004 and 2003 were as follows:

Local Government Noncontributory

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Salary subject to retirement contributions	\$ 937,558	941,999	873,766
Employer contributions	103,975	90,620	75,930

Public Safety Noncontributory

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Salary subject to retirement contributions	\$ 245,028	229,911	202,586
Employer contributions	46,751	37,337	28,139

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 10 - Retirement Plans (continued)

Firefighters Contributory - Division A

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Salary subject to retirement contributions	\$ 66,816	26,121	-
Employer paid for employee contributions	5,753	2,145	-

All contributions by Smithfield City were paid by the due dates or within 30 days thereafter and were equal to the required contributions for each year.

The Utah State Retirement Board of the Utah Retirement Systems provides the City with the necessary retirement disclosures for their report.

Defined Contribution Plans

The City participates in the Utah Retirement Systems' qualified cash or deferred compensation plan under section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may elect to defer a portion of their salary, subject to Internal Revenue Service limits. During the 2005, 2004 and 2003 fiscal years, employees contributed \$19,258, \$18,716 and \$23,288, respectively to the plan. For fiscal years 2005, 2004 and 2003, the City elected not to make contributions to the Plan on behalf of participating employees.

Note 11 - Redevelopment Agency

In accordance with Section 17B-4-1305, Utah Code Annotated, all municipalities having established Redevelopment Agency's are required to disclose the following revenues and expenditures associated with the RDA.

Tax increment collected	\$ 190,000
Balance of debt - Market Development, Inc.	67,794
Expenditures:	
Site improvements	25,260
Tax increment payments	15,628

CITY OF SMITHFIELD
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 12 - Risk Management

Smithfield City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters. The City participates in the Utah Local Government Insurance Trust (the Trust), a public entity risk pool to manage its risk of loss. The City pays an annual premium to the trust for its general insurance coverage. The Trust was created as a self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of one million dollars for each insured event. There have been no claim settlements that exceeded the City's insurance coverage for the past three years.

Required Supplementary Information

CITY OF SMITHFIELD
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues:				
Taxes	\$ 1,503,550	1,653,660	1,804,546	150,886
Licenses and permits	136,000	136,000	192,334	56,334
Intergovernmental	530,120	585,520	521,091	(64,429)
Charges for services	597,720	627,720	661,431	33,711
Fines and forfeitures	170,000	195,000	202,962	7,962
Library	7,100	7,100	10,830	3,730
Miscellaneous	33,440	33,440	50,612	17,172
Total revenues	<u>2,977,930</u>	<u>3,238,440</u>	<u>3,443,806</u>	<u>205,366</u>
Expenditures:				
General government	860,593	967,003	924,370	42,633
Public safety	671,858	781,258	733,908	47,350
Streets and public improvements	911,229	973,429	851,793	121,636
Parks, recreation and public improvements	230,285	303,655	293,811	9,844
Library	119,757	125,757	110,222	15,535
Total expenditures	<u>2,793,722</u>	<u>3,151,102</u>	<u>2,914,104</u>	<u>236,998</u>
Excess of revenues over expenditures	<u>184,208</u>	<u>87,338</u>	<u>529,702</u>	<u>442,364</u>
Other financing sources (uses):				
Proceeds from sale of assets	6,000	66,000	66,204	204
Insurance recovery	-	36,917	36,917	-
Transfers in (out):				
Recreation fund	(118,633)	(118,633)	(63,000)	55,633
Debt service fund	(197,000)	(197,000)	(197,300)	(300)
Capital projects fund	-	-	(320,000)	(320,000)
Total other financing sources (uses)	<u>(309,633)</u>	<u>(212,716)</u>	<u>(477,179)</u>	<u>(264,463)</u>
Net change to fund balance	\$ <u>(125,425)</u>	<u>(125,378)</u>	52,523	<u>177,901</u>
Adjustments from budget basis to GAAP basis:				
Proceeds from capital lease			51,717	
Capital outlay - Parks			<u>(51,717)</u>	
Net change to fund balance - GAAP basis			52,523	
Fund balance - beginning			<u>721,191</u>	
Fund balance - ending	\$		<u>826,237</u>	

CITY OF SMITHFIELD
REDEVELOPMENT AGENCY
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:				
Taxes	\$ 190,000	190,000	190,000	-
Miscellaneous	<u>19,380</u>	<u>19,380</u>	<u>27,640</u>	<u>8,260</u>
Total revenues	<u>209,380</u>	<u>209,380</u>	<u>217,640</u>	<u>8,260</u>
Expenditures:				
Streets and public improvements	115,500	115,500	25,260	90,240
Debt service:				
Principal	<u>14,000</u>	<u>14,000</u>	<u>15,628</u>	<u>(1,628)</u>
Total expenditures	<u>129,500</u>	<u>129,500</u>	<u>40,888</u>	<u>88,612</u>
Excess of revenues over expenditures	\$ <u>79,880</u>	<u>79,880</u>	176,752	<u>96,872</u>
Fund balance - beginning			<u>621,000</u>	
Fund balance - ending	\$		<u>797,752</u>	

CITY OF SMITHFIELD
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
June 30, 2005

Budget Presentation

A Budgetary Comparison Schedule is presented for the General Fund and each major special revenue fund as required by generally accepted accounting principles (GAAP). Budgets for governmental funds are adopted on a legally enacted basis. The legally enacted basis differs from a GAAP basis budget by including the proceeds of capital leases and the related capital outlay expenditure.

Annual appropriated budgets are adopted for all governmental and business-type funds. All annual appropriations lapse at fiscal year end. Each fund adopts a "balanced budget" in accordance with State law. As allowed by State law, the City Council may authorize increases to or uses of unreserved fund balances. In the budget presentations, authorized increases to fund balance are shown as positive changes in fund balance and authorized decreases are shown as negative changes in fund balance.

Budget Adoption and Monitoring

On or before the first scheduled council meeting in May, all agencies of the City submit requests for appropriation to the City's financial officers so that a budget may be prepared. The budget is prepared by fund, function, and activity and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.

The proposed budget is presented to the City Council for review at the first scheduled meeting in May. The City Council holds public hearings and may add to, subtract from, or change appropriations, but may not change the form of the budget. The City financial officer must, within the revenues and reserves, estimate any changes in the budget as available or revenue estimates may be changed by an affirmative vote of a majority of the City Council. Within 30 days of adoption, the final budget must be submitted to the State Auditor. If there is no increase to the certified tax rate, a final tax rate is adopted by June 22, and adoption of budgets is done similarly.

State statute requires that City officers shall not incur expenditures or encumbrances in excess of total appropriations for any department in the budget as adopted or subsequently amended.

Only the Council at a properly advertised public hearing can make increases in total fund appropriations. The final budget information presented is after all approved amendments.

Supplementary Information

CITY OF SMITHFIELD
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
(With Comparative Totals For The Year Ended June 30, 2004)

	2005			June 30, 2004
	Final Budget	Actual	Variance Favorable (Unfavorable)	Actual
Revenues:				
Taxes:				
General property taxes	\$ 384,550	434,336	49,786	402,254
Fees in lieu of property taxes	101,000	99,630	(1,370)	103,683
Sales and use taxes	796,110	855,242	59,132	772,004
Franchise taxes	372,000	415,338	43,338	383,948
Total taxes	1,653,660	1,804,546	150,886	1,661,889
Licenses and permits:				
Business licenses and permits	14,000	17,860	3,860	17,540
Non-business licenses and permits	122,000	174,474	52,474	139,236
Total licenses and permits	136,000	192,334	56,334	156,776
Intergovernmental:				
Class "C" roads	330,000	251,492	(78,508)	325,145
Law enforcement block grant	7,500	-	(7,500)	-
Fire reimbursements	122,600	113,278	(9,322)	71,990
Parks and recreation grants	64,000	95,757	31,757	-
Other grants	57,420	55,118	(2,302)	17,456
Liquor allotment	4,000	5,446	1,446	4,381
Total intergovernmental	585,520	521,091	(64,429)	418,972
Charges for services:				
Sanitation	461,000	468,628	7,628	422,211
Central dispatch fee	61,000	62,635	1,635	60,537
Cemetery	21,000	43,709	22,709	26,460
Park impact fees	63,000	72,000	9,000	25,200
Other	21,720	14,459	(7,261)	28,934
Total charges for services	627,720	661,431	33,711	563,342
Fines and forfeitures	195,000	202,962	7,962	188,690
Library:				
Grants	5,700	5,915	215	5,795
Other	1,400	4,915	3,515	3,203
Total library	7,100	10,830	3,730	8,998

(continued)

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CITY OF SMITHFIELD
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
(With Comparative Totals For The Year Ended June 30, 2004)

	2005		Variance	June 30, 2004
	Final	Actual	Favorable (Unfavorable)	Actual
Miscellaneous revenues:				
Interest	13,110	29,658	16,548	16,861
Community activities	15,330	15,403	73	14,763
Restaurant tax	-	-	-	8,564
Other	5,000	5,551	551	89,375
Total miscellaneous	33,440	50,612	17,172	129,563
Total revenues	3,238,440	3,443,806	205,366	3,128,230
Expenditures:				
General government:				
Legislative	603,970	578,895	25,075	555,319
Youth council	4,985	4,698	287	4,753
Municipal court	73,350	65,735	7,615	40,913
Administrative	69,300	68,406	894	4,509
Attorney	30,300	26,288	4,012	29,341
Non-departmental	93,548	93,533	15	103,629
Buildings	52,300	49,254	3,046	38,895
Elections	150	61	89	3,933
Planning and zoning	39,100	37,500	1,600	7,197
Total general government	967,003	924,370	42,633	788,489
Public safety:				
Law enforcement	496,441	474,789	21,652	419,181
Fire protection	255,542	233,422	22,120	137,751
Emergency services	1,000	-	1,000	-
Building inspection	5,975	4,532	1,443	4,286
Animal control	22,300	21,165	1,135	20,269
Dispatch fee	-	-	-	59,954
Total public safety	781,258	733,908	47,350	641,441
Streets and public improvements:				
Streets	122,450	113,619	8,831	87,114
Public works	10,635	8,797	1,838	8,707
Class C roads	376,594	267,028	109,566	426,131
Sanitation	445,000	444,964	36	418,405
Shop and garage	18,750	17,385	1,365	12,129
Total streets and public improvements	973,429	851,793	121,636	952,486

(continued)

CITY OF SMITHFIELD
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES-
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
(With Comparative Totals For The Year Ended June 30, 2004)

	2005		Variance	June 30, 2004
	Final	Actual	Favorable (Unfavorable)	Actual
Parks, recreation and public property:				
Parks	219,375	216,061	3,314	115,706
Health days/concerts in park	24,300	23,938	362	20,948
Senior citizen programs	10,260	9,962	298	9,828
Historical society	3,800	3,305	495	3,348
Cemetery	45,920	40,545	5,375	9,120
Total parks and recreation	303,655	293,811	9,844	158,950
Library:				
Other	125,757	110,222	15,535	117,193
Capital outlay	-	-	-	235
Total library	125,757	110,222	15,535	117,428
Total expenditures	3,151,102	2,914,104	236,998	2,658,794
Excess of revenues over expenditures	87,338	529,702	442,364	469,436
Other financing sources (uses):				
Proceeds from sale of assets	66,000	66,204	204	-
Insurance recovery	36,917	36,917	-	-
Transfers (out)/in:				
Recreation special revenue fund	(118,633)	(63,000)	55,633	(76,000)
Debt service	(197,000)	(197,300)	(300)	(196,700)
Capital projects fund	-	(320,000)	(320,000)	(326,200)
Total other financing sources (uses)	(212,716)	(477,179)	(264,463)	(598,900)
Net change to fund balance	\$ (125,378)	52,523	177,901	(129,464)
Adjustments from budget basis to GAAP basis:				
Proceeds from capital lease		51,717		-
Capital outlay - Parks		(51,717)		-
Net change to fund balance - GAAP basis		52,523		(129,464)
Fund balance - beginning		721,191		850,655
Fund balance - ending	\$	773,714		721,191

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CITY OF SMITHFIELD
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005

	<u>Recreation Center</u>	<u>Debt Service Fund</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Assets</u>			
Pooled cash and cash equivalents	\$ 24,530	59,529	84,059
Total assets	\$ 24,530	59,529	84,059
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued expenses	\$ 13,719	-	13,719
Total liabilities	13,719	-	13,719
<u>Fund Balances</u>			
Fund balances:			
Unreserved:			
Undesignated	10,811	59,529	70,340
Total fund balances	10,811	59,529	70,340
Total liabilities and fund balances	\$ 24,530	59,529	84,059

CITY OF SMITHFIELD
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES-
NONMAJOR GOVERNMENTAL FUNDS
For The Year Ended June 30, 2005

	Recreation Center	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues:			
Charges for services	\$ 293,232	-	293,232
Total revenues	293,232	-	293,232
Expenditures:			
Parks, recreation and public property	355,799	-	355,799
Debt service:			
Principal	-	126,812	126,812
Interest	-	114,349	114,349
Total expenditures	355,799	241,161	596,960
Deficiency of revenues over expenditures	(62,567)	(241,161)	(303,728)
Other financing sources:			
Transfers in	63,000	241,204	304,204
Total other financing sources	63,000	241,204	304,204
Net change in fund balance	433	43	476
Fund balance - beginning	10,378	59,486	69,864
Fund balance - ending	\$ 10,811	59,529	70,340

CITY OF SMITHFIELD
RECREATION CENTER
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
With Comparative Totals For The Year Ended June 30, 2004

	Budget	Actual	Variance Favorable (Unfavorable)	2004 Actual
Revenues:				
Charges for services	\$ 248,400	293,232	44,832	240,736
Total revenues	248,400	293,232	44,832	240,736
Expenditures:				
Parks and recreation	367,033	355,799	11,234	315,798
Total expenditures	367,033	355,799	11,234	315,798
Deficiency of revenue over expenditures	(118,633)	(62,567)	56,066	(75,062)
Other financing sources:				
Transfer from general fund	118,633	63,000	(55,633)	76,000
Total other financing sources	118,633	63,000	(55,633)	76,000
Net change in fund balance	\$ -	433	433	938

CITY OF SMITHFIELD
DEBT SERVICE FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
With Comparative Totals For The Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2004 Actual</u>
Revenues:				
	\$ -	-	-	-
Total revenues	-	-	-	-
Expenditures:				
Principal	127,346	126,812	534	120,847
Interest	113,858	114,349	(491)	119,507
Total expenditures	241,204	241,161	43	240,354
Deficiency of revenue over expenditures	(241,204)	(241,161)	43	(240,354)
Other financing sources:				
Transfer from capital projects fund	43,904	43,904	-	43,904
Transfer from general fund	197,300	197,300	-	196,700
Total other financing sources	241,204	241,204	-	240,604
Net change in fund balance	\$ -	43	43	250

CITY OF SMITHFIELD
WATER FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
(With Comparative Totals For The Year Ended June 30, 2004)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2004 Actual</u>
Operating revenues:				
Services	\$ 520,000	485,963	(34,037)	518,885
Connection fees	14,000	14,790	790	12,989
Miscellaneous	4,100	6,293	2,193	6,600
Total operating revenues	<u>538,100</u>	<u>507,046</u>	<u>(31,054)</u>	<u>538,474</u>
Operating expenses:				
Salaries and benefits	182,965	186,621	(3,656)	183,081
Current expenses	<u>191,165</u>	<u>166,232</u>	<u>24,933</u>	<u>163,916</u>
Total operating expenses	<u>374,130</u>	<u>352,853</u>	<u>21,277</u>	<u>346,997</u>
Operating income (loss)	163,970	154,193	(9,777)	191,477
Non-operating income (expense):				
Impact fees	70,000	96,380	26,380	70,160
Interest income	<u>10,100</u>	<u>17,341</u>	<u>7,241</u>	<u>10,989</u>
Total non-operating income (expense)	<u>80,100</u>	<u>113,721</u>	<u>33,621</u>	<u>81,149</u>
Net income (loss) before capital expenses	244,070	267,914	23,844	272,626
Capital budget expenses:				
Equipment and improvements	<u>(212,200)</u>	<u>(261,975)</u>	<u>(49,775)</u>	<u>(128,603)</u>
Total capital budget expenses	<u>(212,200)</u>	<u>(261,975)</u>	<u>(49,775)</u>	<u>(128,603)</u>
Net income budget basis	\$ <u>31,870</u>	5,939	<u>(25,931)</u>	144,023
Adjustments from budget basis to GAAP basis:				
Depreciation		(113,461)		(106,578)
Equipment and improvements		261,975		128,603
Contributed equipment and improvements		<u>92,566</u>		<u>-</u>
Net income GAAP basis	\$	<u>247,019</u>		<u>166,048</u>

CITY OF SMITHFIELD
SEWER FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
(With Comparative Totals For The Year Ended June 30, 2004)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2004 Actual</u>
Operating revenues:				
Services	\$ 680,000	697,305	17,305	680,479
Connection fees	4,000	1,800	(2,200)	4,860
Miscellaneous	100	-	(100)	238
Total operating revenues	<u>684,100</u>	<u>699,105</u>	<u>15,005</u>	<u>685,577</u>
Operating expenses:				
Salaries and benefits	156,407	159,114	(2,707)	149,522
Current expenses	<u>288,320</u>	<u>262,038</u>	<u>26,282</u>	<u>201,893</u>
Total operating expenses	<u>444,727</u>	<u>421,152</u>	<u>23,575</u>	<u>351,415</u>
Operating income	239,373	277,953	38,580	334,162
Non-operating income (expense):				
Impact fees	51,000	48,060	(2,940)	47,000
Interest income	<u>11,700</u>	<u>20,808</u>	<u>9,108</u>	<u>11,764</u>
Total non-operating income (expense)	<u>62,700</u>	<u>68,868</u>	<u>6,168</u>	<u>58,764</u>
Net income before capital income (expenses)	302,073	346,821	44,748	392,926
Capital budget income (expenses):				
Bond payments	(266,000)	(266,000)	-	(267,000)
Equipment and improvements	<u>(51,700)</u>	<u>(48,940)</u>	<u>2,760</u>	<u>(78,225)</u>
Total capital budget income (expenses)	<u>(317,700)</u>	<u>(314,940)</u>	<u>2,760</u>	<u>(345,225)</u>
Net income (loss) budget basis	\$ <u>(15,627)</u>	31,881	<u>47,508</u>	47,701
Adjustments from budget basis to GAAP basis:				
Depreciation		(225,810)		(225,791)
Equipment and improvements		48,940		78,225
Contributed equipment and improvements		146,387		-
Bond principal payments		<u>266,000</u>		<u>267,000</u>
Net income GAAP basis	\$	<u>267,398</u>		<u>167,135</u>

CITY OF SMITHFIELD
STORM SEWER FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
(With Comparative Totals For The Year Ended June 30, 2004)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2004 Actual</u>
Operating revenues:				
Services	\$ 60,000	72,855	12,855	66,304
Miscellaneous	100	-	(100)	-
Total operating revenues	<u>60,100</u>	<u>72,855</u>	<u>12,755</u>	<u>66,304</u>
Operating expenses:				
Salaries and benefits	39,492	45,026	(5,534)	14,745
Current expenses	<u>7,800</u>	<u>7,261</u>	<u>539</u>	<u>2,445</u>
Total operating expenses	<u>47,292</u>	<u>52,287</u>	<u>(4,995)</u>	<u>17,190</u>
Operating income	12,808	20,568	7,760	49,114
Non-operating income (expense):				
Interest income	<u>100</u>	<u>614</u>	<u>514</u>	<u>-</u>
Total non-operating income (expense)	<u>100</u>	<u>614</u>	<u>514</u>	<u>-</u>
Net income before capital income (expenses)	12,908	21,182	8,274	49,114
Capital budget income (expenses):				
Equipment and improvements	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,005)</u>
Total capital budget income (expenses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(50,005)</u>
Net income (loss) budget basis	\$ <u>12,908</u>	21,182	<u>8,274</u>	(891)
Adjustments from budget basis to GAAP basis:				
Depreciation		(18,372)		(16,934)
Contributed equipment and improvements		110,089		507,398
Equipment and improvements		<u>-</u>		<u>50,005</u>
Net income GAAP basis	\$	<u>112,899</u>		<u>539,578</u>

CITY OF SMITHFIELD
GOLF FUND
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
For The Year Ended June 30, 2005
(With Comparative Totals For The Year Ended June 30, 2004)

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2004 Actual</u>
Operating revenues:				
Green fees	\$ 400,000	436,996	36,996	475,582
Driving range and cart rentals	216,500	212,459	(4,041)	214,230
Pro shop and food sales	245,000	216,703	(28,297)	226,758
Golf tournaments and clinics	5,000	7,219	2,219	5,185
Miscellaneous	1,700	2,032	332	1,712
Total operating revenues	<u>868,200</u>	<u>875,409</u>	<u>7,209</u>	<u>923,467</u>
Operating expenses:				
Salaries and benefits	458,684	440,890	17,794	447,675
Current expenses	359,985	393,714	(33,729)	399,771
Total operating expenses	<u>818,669</u>	<u>834,604</u>	<u>(15,935)</u>	<u>847,446</u>
Operating income	49,531	40,805	(8,726)	76,021
Non-operating income (expense):				
Interest income	-	1,838	1,838	8,456
Income before capital income (expenses)	<u>49,531</u>	<u>42,643</u>	<u>(6,888)</u>	<u>84,477</u>
Capital budget income (expenses):				
Payments on long-term debt	(59,733)	(61,424)	(1,691)	(15,947)
Proceeds from sale of assets	5,400	-	(5,400)	82,601
Proceeds from long-term debt			-	837,000
Equipment and improvements	<u>(121,950)</u>	<u>(39,994)</u>	<u>81,956</u>	<u>(1,303,256)</u>
Total capital budget income (expenses)	<u>(176,283)</u>	<u>(101,418)</u>	<u>74,865</u>	<u>(399,602)</u>
Net income (loss) budget basis	\$ <u>(126,752)</u>	<u>(58,775)</u>	<u>67,977</u>	<u>(315,125)</u>
Adjustments from budget basis to GAAP basis:				
Principal payments on long-term debt		30,332		-
Proceeds from long-term debt		-		(837,000)
Depreciation		(106,011)		(111,793)
Equipment and improvements		39,994		1,303,256
Unrecovered depreciation on assets sold		-		(152,727)
Net income (loss) GAAP basis	\$	<u>(94,460)</u>		<u>(113,389)</u>

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CITY OF SMITHFIELD
GOVERNMENTAL AUDIT REPORT

June 30, 2005



Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To the Mayor and City Council
City of Smithfield
Smithfield, UT

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Smithfield, Utah (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 13, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

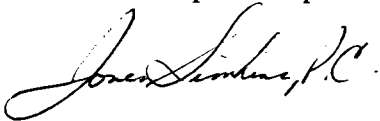
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we also noted other matters involving the internal control over financial reporting that we have reported to the management of the City in a separate letter dated October 13, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain matters that we reported to management in a separate letter dated October 13, 2005.

This report is intended solely for the information and use of the management of the City, the City Council, and State agencies and is not intended to be and should not be used by anyone other than these specified parties.



JONES SIMKINS, P.C.
October 13, 2005

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CITY OF SMITHFIELD
STATE COMPLIANCE REPORT

June 30, 2005



Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LEGAL COMPLIANCE REQUIREMENTS**

To the Mayor and City Council
City of Smithfield
Smithfield, Utah

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Smithfield, Utah (the City), for the year ended June 30, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 13, 2005. As part of our audit, we have audited the City's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching; level of effort, or earmarking; reporting; and special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2005. The City received the following major state assistance programs from the State of Utah:

Class C Road Funds (Department of Transportation)
Liquor Law Enforcement Funds (State Tax Commission)

The City also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the City's financial statements).

Public Library Services Development Grant (Department of Community and Economic Development)

Our audit also included testwork on the City's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Truth in Taxation and Property Tax Limitations
- Justice Courts
- Special Districts
- Other Compliance Issues
- Uniform Building Code Standards
- Impact Fees and Other Developmental Fees
- Asset Forfeiture

The management of the City is responsible for the City's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinions.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which have been reported to management in a separate letter dated October 13, 2005. We considered these instances of noncompliance when forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, the City, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended June 30, 2005.



JONES SIMKINS, P.C.
October 13, 2005

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To the Mayor and City Council
City of Smithfield
Smithfield, Utah

We have audited the financial statements of the City of Smithfield (the City) for the year ended June 30, 2005, and have issued our report thereon dated October 13, 2005.

Communications Required Under Professional Standards

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards, Government Auditing Standards.

As stated in our engagement letter dated July 27, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and to report on the internal control in accordance with Government Auditing Standards and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies and Audit Adjustments

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

For the purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. At management's request, we recorded a transfer from the General Fund to the Capital Projects Fund. We also assisted management in recording certain adjustments to convert the enterprise fund financial statements from a budget basis to the generally accepted accounting principles basis. In addition, several entries were necessary to convert from the fund basis to the entity-wide basis based on information that management provided. Based on discussions with management, we determined that certain infrastructure assets should be recorded as contributed capital assets in the General, Water, Sewer, and Storm Sewer funds and that a new capital lease should be recorded. We also identified the need for a prior period adjustment related to the calculation of certain infrastructure assets.

Internal Control

In planning and performing our audit of the financial statements of the City for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no conditions during our review of the internal control that we believe are material weaknesses. However, our audit disclosed the following conditions that although not considered by us to be material weaknesses, are either weaknesses in internal control for which corrective action might be taken or immaterial instances of noncompliance.

General Recommendations

1. A follow-up on the recommendations in this letter should be made by the Council and reflected in the Council minutes.

Management Response:

The "General Recommendations" of the audit will be presented to the city council at the time the audit is presented. During the following council meeting a discussion on the recommendations will be held and appropriate response taken.

2. We noted that the City's monitoring and reporting of fixed assets significantly improved during the year. The new financial reporting model dramatically increased the responsibility of governments to account for and report fixed assets, including infrastructure. We recommend that the City continue to improve its policies and procedures for accumulating, summarizing and reporting fixed asset information.

Management Response:

The city staff continues to recognize methods by which the monitoring and reporting of fixed assets can be more efficiently be accomplished. As these methods are noted procedures are implemented to streamline future efforts. This on-going review will continue as we strive for efficiency in this area.

State Compliance

3. We noted that, based on the budgeted revenues of the City, the fidelity bond for the City Treasurer needs to be increased to comply with State laws and regulations. We recommend that the City increase the fidelity bond accordingly.

Management Response:

The fidelity bond for the city treasurer will be increased to \$350,000 during the next bonding cycle.

The prior year's recommendations that have been addressed by management or the Council have not been repeated.

We appreciate the cooperation and assistance from City personnel during our audit. Their help was very beneficial in the completion of this year's audit.

City of Smithfield

Page 4

This report is intended solely for the use of the Mayor and City Council and should not be used for any other purposes. If questions arise concerning the above recommendations, please contact us and we will be happy to discuss them with you.

A handwritten signature in cursive script, reading "Jones Simkins, P.C.", written in dark ink.

JONES SIMKINS, P.C.

October 13, 2005